MERLAND EXPLORATIONS LIMITED

1975 ANNUAL REPORT

MERLAND EXPLORATIONS LIMITED

HEAD OFFICE
402 Fina Building,
736 Eighth Avenue S.W.,
Calgary, Alberta T2P 1H4
Telephone — (403) 269-2511

SUBSIDIARIES
Amerco Investments Limited
Merland Resources, Inc.
Northwest Oils Limited
Parquet Flooring Company Limited

AUDITORS
Peat, Marwick, Mitchell & Co.

BANKERS
The Royal Bank of Canada

REGISTRAR AND TRANSFER AGENT
Guaranty Trust Company of Canada
Calgary, Alberta
Toronto, Ontario
Vancouver, B.C.

DIRECTORS
Robert Law, Q.C., Toronto, Ontario
Brian D. Marshall, Toronto, Ontario
William T. Mason, Freelton, Ontario
Wilmot L. Matthews, Toronto, Ontario
Peter M. Oley, Calgary, Alberta
William O. Parlee, Q.C., Edmonton, Alberta
George T. Smith, Toronto, Ontario
John E. Stobart, Calgary, Alberta
Donald R. Watt, Toronto, Ontario

OFFICERS
Peter M. Oley, President
Patrick H. Belliveau, Vice-President
William G. Fyfe, Treasurer
Robert Law, Q.C., Secretary

SENIOR PERSONNEL
Allan P. Markin, Chief Engineer
E. L. Richardson, Controller
Norman T. Wudel, Land Manager

STOCK LISTING
The Toronto Stock Exchange

PETER M. OLEY, P.ENG.
PRESIDENT

MERLAND EXPLORATIONS LIMITED
402 FINA BUILDING
736 - 8TH AVENUE S.W.
CALGARY, ALBERTA T2P 1H4

OFFICE 269-2511
RES. 243-1319

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MERLAND EXPLORATIONS LIMITED

AND SUBSIDIARIES

ANNUAL REPORT TO DECEMBER 31, 1975

HIGHLIGHTS	1975	1974	1973	1972
PRODUCTION				
GAS — Billions Cubic Feet	7.3	5.5	1.6	.1
— Millions Cubic Feet Per Day	20.1	15.1	4.4	.3
OIL — Barrels	15,770	6,315	430	—
— Barrels Per Day	43.2	17.3	1.2	—
ACREAGE [000 Acres]				
GROSS	487	600	420	162
NET	165	236	130	53
DRILLING RECORD				
WELLS DRILLED (Gross)				
OIL	11	7	1	—
GAS	121	68	82	27
DRY	13	11	24	2
PRODUCTIVE WELLS (Cumulative)				
GROSS	536	409	240	33
NET	290	215	175	15
FINANCIAL $[000]				
SALES (Net of Royalty)	2,594	976	189	26
CASH FLOW from Operations	1,850	582	185	212
NET EARNINGS (Loss)	587	109	(55)	83
PER SHARE (Cents)				
CASH FLOW from Operations	39,8*	12.5	4.4	5.1
NET EARNINGS (Loss)	12.6	2.3	(1.3)	2.0

* *Fully Diluted: — 35.2¢*

MERLAND EXPLORATIONS LIMITED
AND SUBSIDIARIES

DIRECTORS' REPORT

TO THE SHAREHOLDERS:

During 1975, Merland continued its remarkable growth. Although approximately half of the Company's drilling effort was concentrated in the shallow gas areas of Alberta, the other half was directed to diversifying the Company's exploration and producing base in other areas of Alberta and most recently in East Texas, where the Company participated as to 10% in an indicated major Smackover discovery at 13,500 feet.

Merland intends to pursue its aggressive expansion policies using its newly developed cash flow and additional bank lines of credit. With its apparent success in Texas and considering the attractive economics in the U.S.A., the Company will increase its exploration activity in that country in 1976.

The Company has formed Merland Resources, Inc., a wholly-owned subsidiary, to handle its American interests.

FINANCIAL

During 1975, the Company invested $5,914,008 in oil and gas exploration and development. This compares with $5,756,489 in 1974. Unfortunately, due to inflationary effects, the increased capital expenditure actually resulted in less work accomplished than the year previous. Gross sales, however, increased dramatically to $3,660,070 from $1,301,362 in 1974. This 181% increase was partly due to increased production rates and partly due to increased gas prices commencing in November, 1975. Cash flow increased to $1,849,526 from $582,328 in 1974 and net earnings increased to $587,194 from $108,920. Net earnings were 12.6¢ per share as compared to 2.3¢ per share in 1974.

During the year the Company sold 40% of its holdings in the Bantry area for $2,100,000. Some small holdings in the Walsh area of Alberta were also sold, resulting in a total cash gain from these sales of $1,044,008.

PRODUCTION

The Company's average daily gas production for the year was 20.1 Mmcf/d, an increase of 5.0 Mmcf/d over 1974. Its target of 35 Mmcf/d by year end was not reached due to a sale of part of the Company's Bantry production and to the fact that several projects due to go on stream in the fall of 1975 were delayed. There were several reasons for this, the most notable being delays by Alberta Gas Trunk Line in tying in gas plants. Another problem was increased government control, resulting in time lags for approvals to lay pipeline and build compressor plants.

During the year the Company surrendered 80,438 acres in Saskatchewan. Plans are to concentrate on areas which are more attractive both economically and politically.

OUTLOOK

The Company at the end of 1975 held interests in 536 producing oil and gas wells. Plans for 1976 include the drilling of 100 additional oil and gas wells with the emphasis on the deeper, more prolific pools. It is

expected that there will be increased gas and oil prices in Canada in the fall of 1976 and possibly some decrease in royalties in some areas. It is expected that 1976 will be a boom year for exploration in Alberta and British Columbia, and also in the U.S. Merland intends to take advantage of these conditions and continue its aggressive growth, with an anticipated capital expenditure of $6,000,000 in 1976.

APPRECIATION

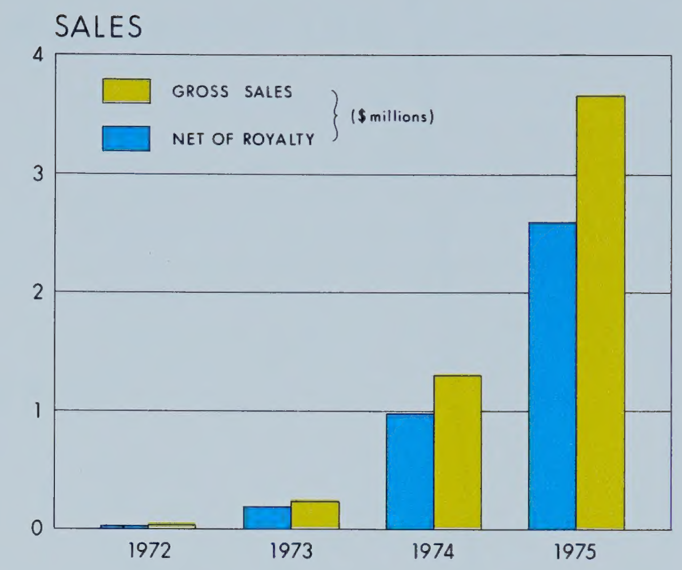
Merland has grown from an office staff of two employees in 1969 to an efficient organization of 51 management, technical and operating employees by the end of 1975. To the present time, Merland has concentrated on efficient drilling and production practices to maximize income from its major properties in the shallow gas areas. In the future, there will be increasing emphasis on deeper exploration.

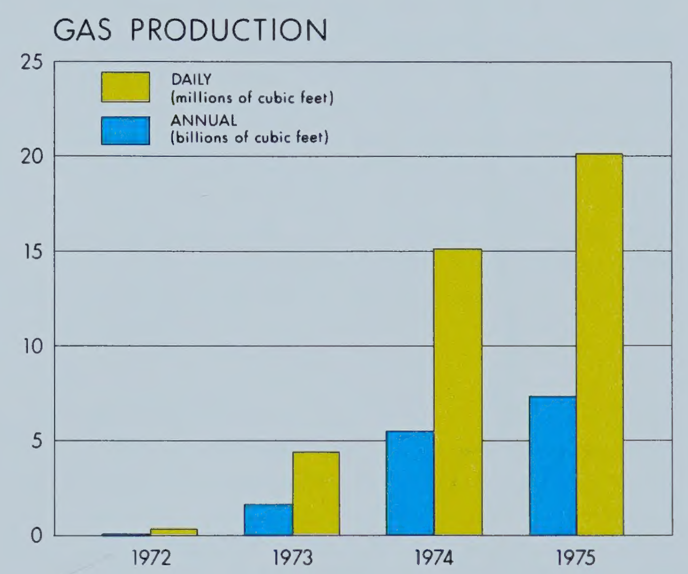
The directors wish to take this opportunity to thank the employees of the Company for their devotion, dedication and hard work which has made the Company's success possible.

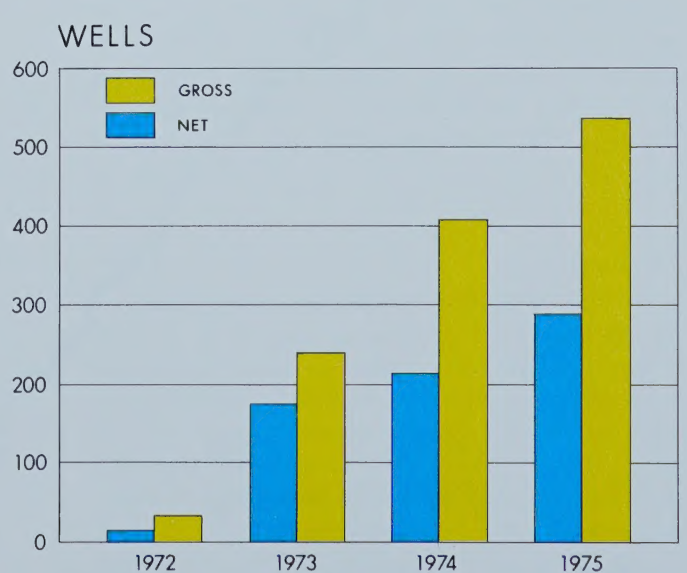
On behalf of the Board

GEORGE T. SMITH, Director

PETER M. OLEY, Director








ALBERTA
NORTH BIG BEND
WESTLOCK
EDMONTON
HOLDEN
VIKING
JARROW
HALKIRK
HAMILTON LAKE
CALGARY
BANTRY
HILDA
NORTH MEDICINE HAT
HORSHAM
CONLAC-VALE
ALDERSON
MEDICINE HAT
TABER
WINNIFRED
LETHBRIDGE
RED COULEE
CANADIAN PRODUCING PROPERTIES
OIL
GAS
INDEX MAP
0 50 100
SCALE IN MILES
MERLAND EXPLORATIONS LIMITED
CALGARY — ALBERTA

EXPLORATION, DEVELOPMENT AND PRODUCTION SUMMARY

In 1975, Merland was one of the ten most active companies, in terms of drilling activity, in Western Canada. The Company drilled 95 exploratory and development wells during the year and, in addition, participated in 50 wells drilled by other operators, including 3 wells in the State of Texas. Of the total of 145 wells, 121 were successful gas wells, 11 were successful oil wells and 13 were dry — a success ratio of 91% which rates amongst the best achieved in the industry.

Fully half of the 1975 drilling program was concentrated in the Company's producing areas of Bantry, Conlac, Vale and Horsham with a resultant increase in production from those areas. Twenty-seven wells were drilled in the Jarrow, Westlock, Halkirk, Big Bend, and South Alderson areas and further development work in each of these areas is planned for 1976. The Company expects an increase in its natural gas production of approximately 7.5 million cubic feet per day (Mmcf/d) from these areas as they are brought on stream during 1976.

The Company, through its wholly owned subsidiary, Merland Resources, Inc., participated in a three-well drilling program to earn a 10% interest in a project in East Texas. The third well resulted in a three zone discovery. It is expected that the East Texas area will develop as an important new contributor to revenues in 1976 and future years.

The Company recorded another year of substantial gains in production. Natural gas production in 1975 rose to 20.1 Mmcf/d from 15.1 Mmcf/d in 1974, an increase of 33%. On completion of its 1976 development program it is expected that the Company's Canadian gas production will be increased to approximately 35 Mmcf/d and its oil production will approximately triple to about 125 bbls per day with a corresponding increase in revenue and cash flow.

A more detailed report on the Company's major areas of interest follows.

BANTRY

In the Bantry area the Company drilled 20 wells and installed approximately 23.5 miles of gathering lines during 1975. In 1976, the Company is planning to drill 20 to 25 additional wells, to install about 8.5 miles of gathering lines and to add sour gas treatment facilities to the plant. On completion of the 1976 program it is expected that production will be increased by approximately 2 Mmcf/d, (Merland's share 0.6 Mmcf/d). In 1975, Merland sold a portion of its interest in this area, but it still retains a 30% interest in the overall Bantry project.

CONLAC

Twenty-two successful gas wells were drilled during 1975 bringing the total of productive wells in the Conlac area to 160. During the year Merland farmed into the holdings of another company in the lower Medicine Hat formation in the area, and expects eventually to earn a 50% interest in these rights. Part of this acreage was earned in 1975 and drilling will continue in 1976. It is expected that the 1976 program, when completed, will increase production for this area by approximately 10%. The Company has varying interests in the Conlac area of 50 to 100%.

HORSHAM

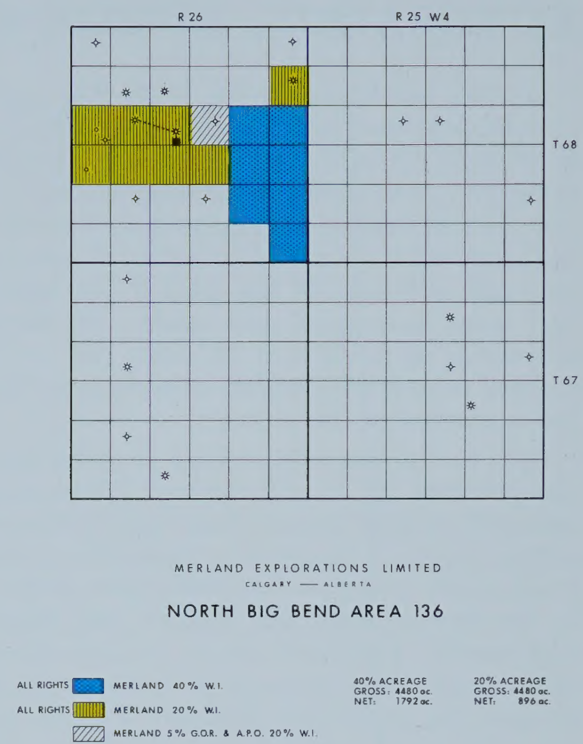
Five new wells were drilled by the Company in 1975 bringing the total of productive wells in the Horsham area to 24. Additional development drilling and pipelining was originally scheduled for this area for 1976, but unless the Company is able to negotiate a satisfactory gas price, this work may be postponed until a future date. The production rate for Horsham averaged about 4.5 Mmcf/d during 1975. The Company has a 55% interest in this area.

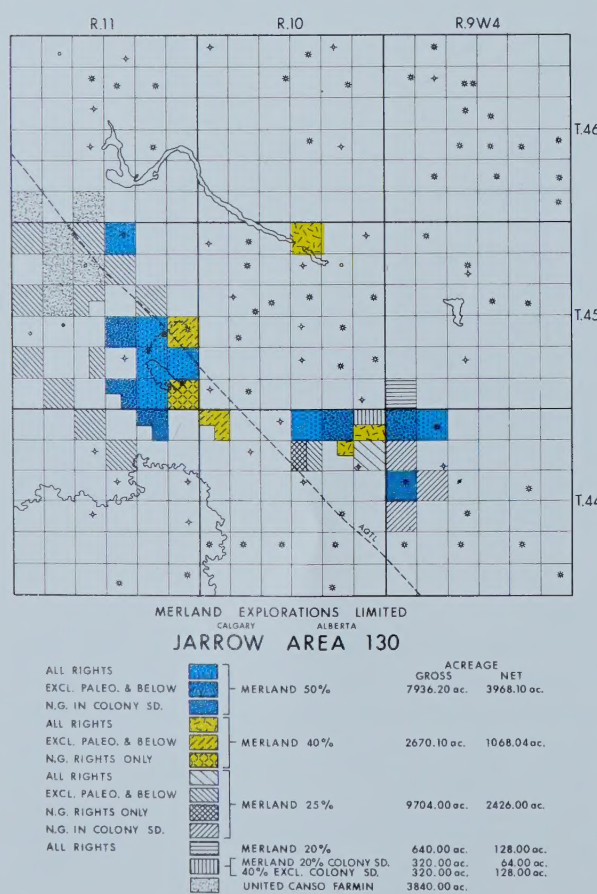
VALE

Twenty-nine wells were drilled in this area during 1975, and an additional 13.5 miles of gathering lines installed. The Vale development drilling resulted in a new gas discovery in the Second White Specks formation. Production at the 1975 year end was approximately 5.5 Mmcf/d net to Merland. The Company's interest in the Vale area varies from 35 to 100%.

BIG BEND

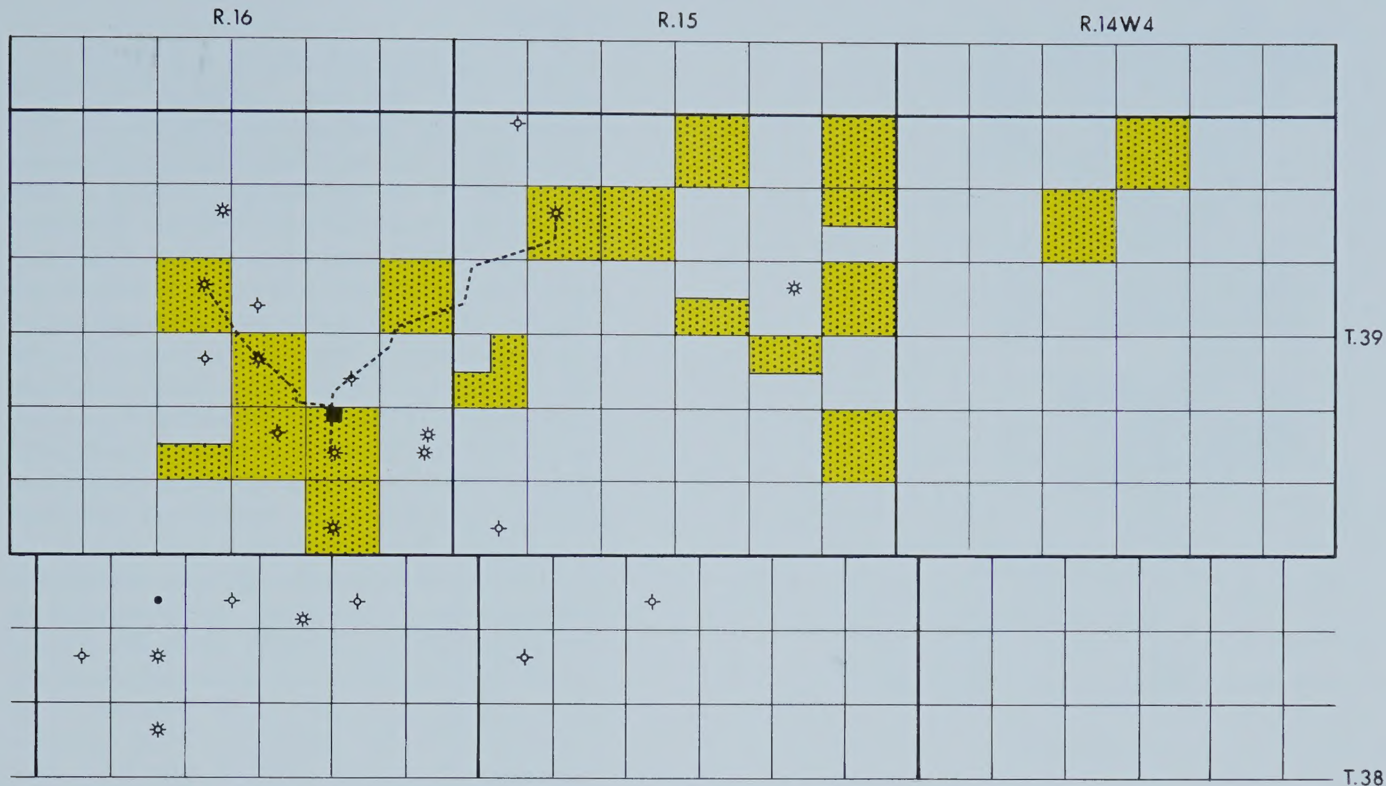
A gas treatment plant, gathering system and compressor station are under construction at Big Bend. During 1975, two successful gas wells were drilled making a total of three wells capable of production. One additional well was drilled in early 1976 and will be connected to the system during the year. The plant was initially scheduled to go on stream late in the spring of 1976 but delays in obtaining the necessary connections to a transmission line may force postponement until mid-year. The initial plant volume is expected to be approximately 3 Mmcf/d with Merland's share being .6 Mmcf/d. The Company has varying interests of 20 to 40% in the Big Bend area.





JARROW

Compression and dehydration facilities have been constructed at Jarrow and two of the three wells that were drilled by the Company during 1975 have been tied into the system. Additional seismic work, which was carried out early in 1976, is being evaluated and three to five wells are planned for this area during 1976. The plant went on stream on April 3, 1976, with an initial contract volume of 2 Mmcf/d of which Merland's share will be approximately .9 Mmcf/d. The Company has varying interests of 25 to 50% in this area.



MERLAND EXPLORATIONS LIMITED

CALGARY — ALBERTA

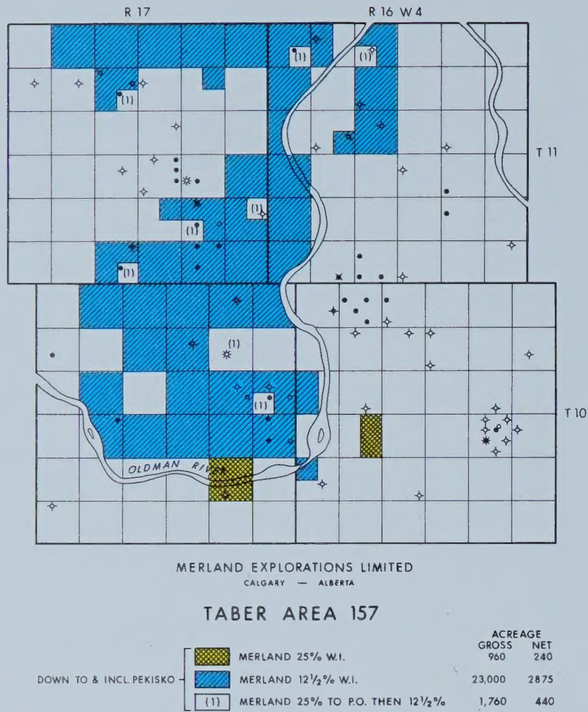
HALKIRK AREA 160, 186, 189

ALL RIGHTS	MERLAND 50%	ACREAGE GROSS	ACREAGE NET
		10720	5360

HALKIRK

Four successful gas wells were drilled in 1975 in the Halkirk area making a total of five wells which are capable of production from the Viking and Basal Quartz formations. A gas treatment plant and compressor station have been constructed and approximately 8.5 miles of 3" and 4" pipeline installed to gather the gas from the wells to the centrally located plant.

Two compressors with a total of 400 bhp have been installed giving the plant a capacity of 5 Mmcf/d. The plant went on stream on April 16, 1976 with an initial volume of 3.5 Mmcf/d. At least two additional wells will be drilled in this area and connected into the system in 1976. The company has a 50% interest in the Halkirk area.

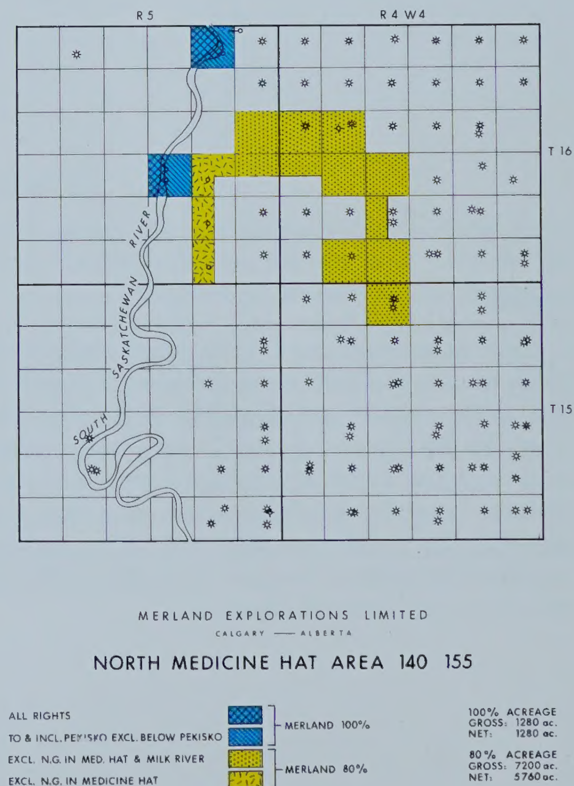


TABER

Nine wells were drilled in the Taber area during 1975 and the Company has now completed its earning commitments in this area. Of the nine wells drilled, six were classified as oil discoveries, one as a gas discovery, one was drilled as a water injection well and one was dry and abandoned. Production has been consolidated into two batteries and operational efficiency increased so that the allowable rate of 350 bbls/d can be sustained from the ten wells on production. Merland has commenced development of two of the oil discoveries, and on completion of development drilling it is planned to place these two pools on waterflood. The Company is planning to develop at least two of the remaining discoveries during 1976. An evaluation of the field in terms of a recommendation that some wells be recompleted, is also scheduled. On completion of the 1976 drilling and waterflood program it is expected that oil production will average approximately 800 bbls/d. Merland has varying interests of 12½ to 25% in the Taber area.

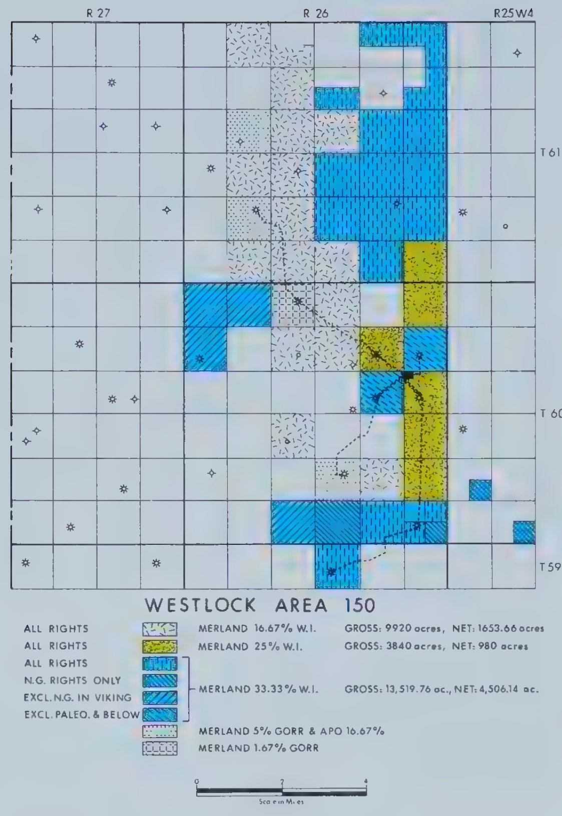
NORTH MEDICINE HAT

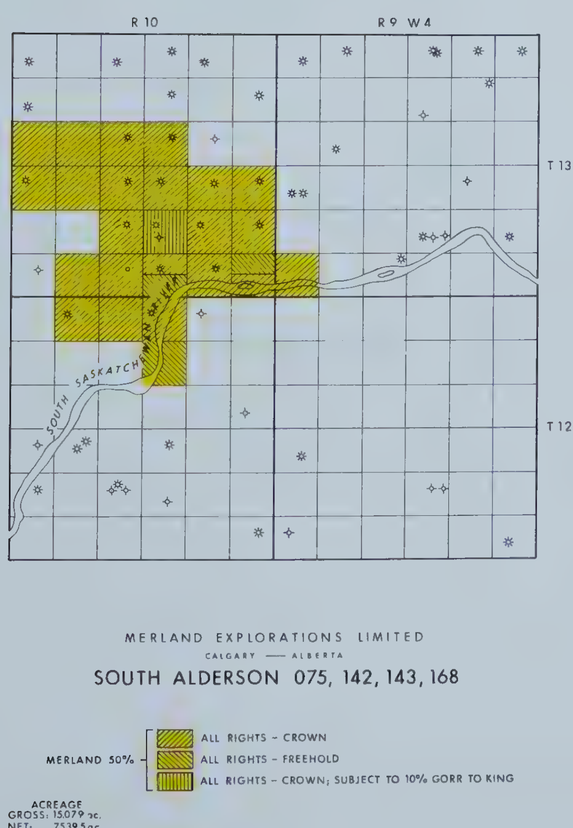
The Company drilled two wells in the North Medicine Hat area during 1975, making a total of three wells capable of natural gas production in this area. Five wells are planned for 1976. Approximately 5.5 miles of gathering lines have been installed. Production from the area is to be processed through existing facilities of another operator and is scheduled to commence in May, 1976, with initial throughput of approximately 3 Mmcf/d. Merland's interests in the North Medicine Hat area vary from 80 to 100%.



WESTLOCK

In the Westlock area there are nine wells capable of production, five of which were drilled by the Company in 1975. The major producing zones in this area are the Viking and Basal Quartz with some production from the Glauconitic and Ostracod. A gas plant is under construction and approximately 15 miles of pipeline installed to gather gas to the plant. The plant is scheduled to go on stream in June, 1976, handling an initial volume of 7.5 Mmcf/d. Further development drilling is planned for 1976. Sour gas processing facilities are to be added during the fall to enable the plant to handle additional volume from the Basal Quartz. Plant intake is then expected to increase to approximately 10 - 12 Mmcf/d. Merland's interest in the Westlock area varies from 16.67 to 33.33%.





SOUTH ALDERSON

Nine wells were drilled in the South Alderson area during 1975, bringing the total of productive wells to 14. Four gas-productive zones have been established:— the Milk River, Medicine Hat, Second White Specks and Viking. Approximately 14.5 miles of gathering lines were installed during February and March 1976 and a gas treatment plant and compressor station are under construction. Seven wells are planned for 1976. The plant is scheduled to go on production in May, 1976 with an initial throughput of approximately 3 Mmcf/d. Merland has a 50% interest in this area.

EAST TEXAS

In Texas three wildcat wells were drilled with the following results. The first well was drilled to a depth of 13,802 feet but was dry and was abandoned. The second well was drilled to a depth of 9,035 feet and although it showed promise in the Rodessa zone mechanical difficulties prevented testing. The third well was drilled to a depth of 13,909 feet and, early in 1976, was brought in as a three-zone discovery, having encountered either oil or gas and condensate in each zone.

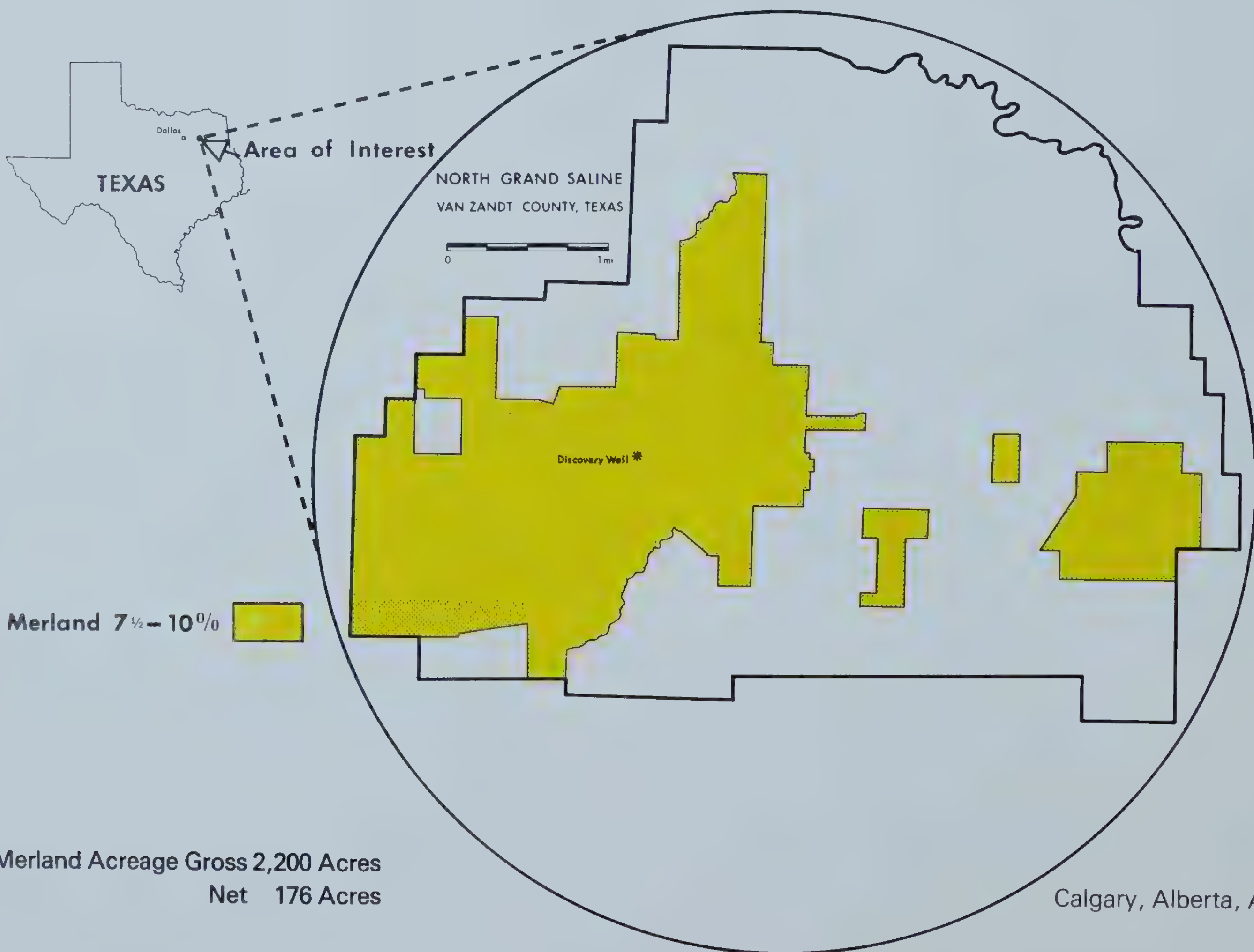
In the discovery well, Canus No. 1 Admire, one zone in the Rodessa flowed oil at 30 barrels per hour on drill stem test, the other tested at 2.0 Mmcf/d of natural gas and 22 barrels per hour of condensate.

Initial testing of the Smackover in the discovery well involved the upper 132 feet of the 234-foot porous section in an indicated gas-bearing interval more than 400 feet thick. Preliminary testing indicates this zone to be commercial.

A twin well, Admire No. 2 was drilled adjacent to Admire No. 1 in order to produce from the Rodessa sands. Production casing is now set in this well. Cores and logs indicate 24 feet of oil sand beginning at 8,188 feet, and 19 feet of gas-condensate sand starting at 8,263. These results correspond closely to those in the discovery well.

The first offset well, No. 1 Richey, has been drilled and was completed as a Rodessa oil and gas well. This location is 2,000 feet north-east of the Admire wells. The second offset well, No. 1 Smith, has commenced drilling.

Currently, Merland has a 10% interest in the project with respect to 1,600 acres of the lands involved, which will reduce to 7.5% after payout. With respect to the other 600 acres, it will remain at 10%. The Company expects to participate in additional exploration wells in Texas in 1976.



Merland Acreage Gross 2,200 Acres
Net 176 Acres

Calgary, Alberta, April 1976

MERLAND EXPLORATIONS LIMITED
AND SUBSIDIARIES

Financial Reports

MERLAND EXPLORATIONS LIMITED
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
December 31, 1975
(with comparative figures for 1974)

Assets

	1975	1974
CURRENT ASSETS:		
Cash	$ 100,065	$ 72,710
Accounts receivable	2,453,367	1,816,289
Inventory of materials and supplies, at cost	77,745	270,302
Prepaid expenses and other	74,258	79,135
Total current assets	2,705,435	2,238,436
INVESTMENTS:		
Shares of other companies, at cost	50,000	50,000
Mortgage receivable — due October 1977	100,000	100,000
	150,000	150,000
PROPERTY, PLANT AND EQUIPMENT — AT COST:		
Petroleum and natural gas interests	13,150,857	9,132,809
Less accumulated depletion	(755,293)	(336,761)
Production equipment, gas plants and facilities	4,442,898	3,925,402
Less accumulated depreciation	(434,840)	(220,656)
	16,403,622	12,500,794
OTHER ASSETS:		
Debenture issue costs, less amortization	59,538	67,221
Organization and share issue expense	134,819	134,819
	194,357	202,040
	$19,453,414	$15,091,270

See accompanying notes to consolidated financial statements.

Liabilities

	1975	1974
CURRENT LIABILITIES:		
Accounts payable and accrued expenses ..	$ 3,201,732	$ 2,619,770
Debenture interest payable (Note 2)	79,188	175,000
Notes payable, non-interest bearing	—	150,000
Current portion of long-term debt (Note 2)...	1,698,000	1,322,700
Total current liabilities	4,978,920	4,267,470
PREPAYMENTS ON FUTURE NATURAL GAS DELIVERIES	163,590	163,590
LONG-TERM DEBT (Note 2)	10,802,000	8,177,300
DEFERRED INCOME TAXES	846,450	432,650

Shareholders' Equity:

	1975	1974
Capital stock (Note 3):		
Authorized — 7,500,000 shares without nominal or par value. Issued and fully paid — 4,662,500 shares (1974 - 4,642,500)	3,064,532	3,039,532
Deficit (Note 2)	(402,078)	(989,272)
	2,662,454	2,050,260
	$19,453,414	$15,091,270

On behalf of the Board:

GEORGE T. SMITH, Director

PETER M. OLEY, Director

MERLAND EXPLORATIONS LIMITED

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS AND DEFICIT

Year ended December 31, 1975
(with comparative figures for 1974)

	1975	1974
REVENUE:		
Sales of gas and oil production	$3,660,070	$1,301,362
Less royalties	1,066,435	324,899
	2,593,635	976,463
Gain on sale of petroleum and natural gas interests	1,044,008	757,190
Flooring division sales	—	269,542
Interest and other	176,520	76,731
	3,814,163	2,079,926
COSTS AND EXPENSES:		
Production — gas and oil	948,472	436,719
Cost of sales and operating expenses — floor division	—	285,935
General and administrative	364,250	232,363
Interest on long-term debt	825,946	587,247
Unproductive exploration and development	173,811	60,571
Depletion	441,476	202,947
Depreciation	225,562	134,690
	2,979,517	1,940,472
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	834,646	139,454
Income taxes:		
Current	11,318	2,500
Deferred	413,800	125,818
Alberta royalty tax credit	(177,666)	(29,750)
	247,452	98,568
EARNINGS BEFORE EXTRAORDINARY ITEM	587,194	40,886
Gain on sale of other assets — flooring division (Net of applicable income taxes)	—	68,034
NET EARNINGS	587,194	108,920
DEFICIT AT BEGINNING OF YEAR	(989,272)	(1,098,192)
DEFICIT AT END OF YEAR	$ (402,078)	$ (989,272)
EARNINGS PER SHARE: (Note 4)		
Before extraordinary item	12.6¢	.9¢
Extraordinary item	—	1.4¢
Net earnings	12.6¢	2.3¢

See accompanying notes to consolidated financial statements.

MERLAND EXPLORATIONS LIMITED

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1975
(with comparative figures for 1974)

	1975	1974
SOURCE OF WORKING CAPITAL:		
Working capital from operations	$ 1,849,526	$ 582,328
Long-term bank loans	6,456,400	6,429,800
Prepayment of future natural gas deliveries	—	163,590
Issue of capital stock	25,000	—
Sale of property, plant and equipment	1,170,331	454,976
	9,501,257	7,630,694
APPLICATION OF WORKING CAPITAL:		
Property, plant and equipment	5,914,008	5,756,489
Long-term bank loans	3,831,700	3,895,700
Mortgage receivable	—	100,000
	9,745,708	9,752,189
DECREASE IN WORKING CAPITAL	244,451	2,121,495
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	(2,029,034)	92,461
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	$ (2,273,485)	$(2,029,034)

See accompanying notes to consolidated financial statements.

AUDITORS' REPORT

We have examined the consolidated balance sheet of Merland Explorations Limited and subsidiaries as of December 31, 1975 and the consolidated statements of earnings and deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and its subsidiaries as of December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
March 26, 1976.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

MERLAND EXPLORATIONS LIMITED
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1975

1. **Accounting policies:**

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

During the year certain subsidiaries were placed in voluntary liquidation and all of their assets and liabilities were assumed by the parent Company. Accordingly the excess of the unamortized cost of acquiring these subsidiaries over their underlying net asset values at the date of acquisition has been assigned to the related petroleum and natural gas interests.

(b) Petroleum and natural gas interests:

The costs of acquiring interests in proven and unproven petroleum and natural gas properties, and the related costs of development, including interest, are capitalized on an area basis. Depletion and depreciation are provided on property costs, including costs of development of productive wells, on the unit of production method based on the related proven reserves of petroleum and natural gas as estimated by independent or employee engineers. The costs of non-productive areas are charged to expense when properties are abandoned or surrendered.

(c) Income taxes:

The Companies follow the tax allocation method of accounting for all timing differences between taxable income and recorded income. Under this method, provisions for deferred income taxes are made on the excess of deductions for income tax purposes over the related depletion, depreciation and other charges recorded in the accounts.

2. **Long-term debt:**

	1975	1974
Bank loan	$10,000,000	$7,000,000
7% convertible income debentures, Series A, due October 1, 1983	2,500,000	2,500,000
	12,500,000	9,500,000
Less current portion of bank loan included in current liabilities	1,698,000	1,322,700
	$10,802,000	$8,177,300

The bank loan, which bears interest at 1¼% above bank prime rate, is secured by a general assignment of accounts receivable and an assignment of certain of the Company's interest in petroleum and natural gas properties.

The 7% convertible income debentures were issued on October 4, 1973 pursuant to a Trust Indenture. The Trust Indenture provides that under certain circumstances:

(i) Payment of interest may be deferred.

(ii) The debentures may be converted into capital stock of the Company as set out in Note 3.

(iii) The debentures may be redeemed at the option of the Company at specified premiums.

2. Long-term debt [Continued]:

The Company has agreed to establish a sinking fund for annual payments to the Trustee commencing in 1979 of an amount sufficient to retire $500,000 principal amount of debentures in each of the years 1979 to 1982.

The debentures are not secured by any charge against the assets of the Company. Various covenants of the Trust Indenture restrict the Company in regard to declaration of dividends and the creation of any charge against the Company's assets.

No deduction is allowed under the Income Tax Act for interest expense related to the 7% convertible income debentures in the amount of $166,688 (1974 — $175,000).

3. Capital stock:

During the year options to exercise 50,000 shares were granted at prices ranging from $1.25 to $1.80, excercisable up to November 3, 1977. Options in connection with 20,000 shares were exercised at $1.25 per share for an aggregate cash consideration of $25,000. At December 31, 1975 options to exercise 260,000 shares were outstanding as follows:

210,000	shares exercisable to December 31, 1976 at $1.25 per share
10,000	shares exercisable to December 31, 1976 at $1.80 per share
20,000	shares exercisable to October 26, 1977 at $1.50 per share
20,000	shares exercisable to November 3, 1977 at $1.25 per share
260,000	

Of the 260,000 shares under option 180,000 have been granted to officers and directors.

The 7% convertible income debentures are convertible until September 30, 1977 into the capital stock of the Company at $2.78 per share. Accordingly, 900,000 shares have been reserved for the conversion of these debentures. Subsequent to September 30, 1977 and until September 30, 1983 the debentures are convertible at $4.00 per share.

Subsequent to December 31, 1975 options in connection with 255,000 shares were exercised for an aggregate cash consideration of $329,250 and 85,500 shares were issued on conversion of $237,500 of principal amount of 7% convertible income debentures.

4. Earnings per share:

The exercise of outstanding share options and conversion of outstanding debentures would have no dilutive effect on earnings per share.

5. Statutory information:

The Company has nine directors and seven officers, two of whom are directors. During the year ended December 31,1975 the aggregate remuneration paid to officers for their services was $136,805 (1974 — $71,239, six officers) and the aggregate remuneration paid to directors for their services was $9,200 (1974 — Nil).

6. Anti-Inflation Act:

The Company is subject to the dividend restrictions of the Anti-Inflation Act.

MERLAND EXPLORATIONS LIMITED
ANNUAL REPORT 1975
LITHOGRAPHED IN CANADA

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Merland Explorations Limited

AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Six Months Ended June 30, 1975

	1975	1974
SOURCE OF WORKING CAPITAL:		
Working capital provided by operations	$ 255,994	$ 452,324
Long-term bank loans .	1,269,100	—
Sale of fixed assets . .	—	9,379
	1,525,094	461,703
USES FOR WORKING CAPITAL:		
Addition to property, plant and equipment — net of amounts recovered	$ 1,687,551	$ 1,001,914
Reduction in long-term portion of bank loan	—	150,335
	1,687,551	1,152,249
Decrease in working capital	162,457	690,546
Working capital (deficiency) beginning of period . .	(2,029,034)	92,461
Working capital (deficiency) end of period	$(2,191,491)	$ (598,085)

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Merland Explorations Limited

Interim Report
SIX MONTHS ENDED
JUNE 30th, 1975

TO THE SHAREHOLDERS:

During the first six months of 1975 Merland Explorations Limited recorded gross income of $1,608,392, before royalties, from oil and gas operations. This is up substantially from $472,013 for 1974, and up dramatically from less than $50,000 for 1973.

Pretax earnings from oil and gas operations for the first half of 1975 were $14,413, up from a loss of $549,478 in 1974. However, in 1974 additional earnings were derived from the proceeds of a property sale and income from a nonpetroleum subsidiary (since liquidated) which, when added, results in a net profit of $248,567. Using this same basis oil and gas operations during the first half of 1973 produced a net loss of $286,948.

This acceleration of income is expected to continue for the balance of 1975 and well into 1976. Certainly the six-months' figures reinforce the optimism expressed by the directors in the 1974 Annual Report: "In 1975 revenue is expected to increase substantially due to higher prices for natural gas expected November 1, 1975 and new production from a major development program on company holdings . . . A virtual doubling of revenues can be expected in 1976 as a result of anticipated higher prices and expanded production."

The encouraging results of the past six months and those expected during the next 18 months are the direct result of the Company's program of acquisition, exploration and development. This is continuing at a rate which has already made Merland one of the most active companies in the petroleum industry.

During the first half of 1975 Merland drilled, or participated in, 61 wells of which 52 were completed as gas wells and three as oil producers. This is a success ratio of 90%. It also places Merland, according to the Daily Oil Bulletin, in ninth position among operators in Alberta, where most of the Company's wells are drilled.

Three of the Alberta wells encountered commercial volumes of gas in the Jarrow area (Merland approximately 45%) where the Company retained a substantial land position when some of its interests were sold in 1974. These wells represent a major extension of the Jarrow field and it is hoped that production from these new reserves will begin before the end of the year.

Increases in oil production are expected as a result of drilling and waterflood at Red Coulee (Merland 25%) which is now in operation, and of drilling success at Taber (Merland 12½%) where the two most recent wells have been found capable of producing 80 and 60 barrels of oil per day. The first of an additional six wells at Taber is already being drilled.

In addition to the new reserves at Jarrow, it is expected that reserves established by drilling programs at Alderson South, Big Bend North, Halkirk, Westlock, and North Medicine Hat, will be on pipeline by the end of the year. There are also eight shallow gas wells at Bantry awaiting tie-in, and the 40-well drilling program at Vale and Conlac is well underway.

Both management and directors look to the Company's future with great optimism. They fully expect that the 1975 production goal of 35 million cubic feet of natural gas per day will be reached at year end, and that this continuing growth will be reflected strongly in the financial results for the balance of the year.

August 18, 1975

PETER M. OLEY
President

Merland Explorations Limited
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

Six Months Ended June 30, 1975

	1975	1974
REVENUE:		
Oil and natural gas — net of royalties . . .	$ 1,193,373	$ 355,321
Gain on sale of petroleum and natural gas interests	303	630,082
Parquet Flooring division	—	167,963
Interest	47,609	32,187
	$ 1,241,285	$ 1,185,553
Earnings from operations before the undernoted items	$ 707,028	$ 744,333
Depreciation and depletion	245,781	144,388
Interest on long-term debt	446,834	292,653
Abandonment and surrender of properties	—	58,725
	692,615	495,766
Earnings (loss) from operations	14,413	248,567
Income taxes — current	4,200	3,200
— deferred	21,600	141,800
	25,800	145,000
Net earnings (loss) for the period	$ (11,387)	$ 103,567
Net earnings (loss) per share	$ (.002)	$ .02